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PUBLIC SERVICE  
COMMISSION

In the Matter of

THE APPLICATION OF APACHE GAS TRANSMISSION )  
COMPANY, INC. FOR AN INCREASE IN RATES ) CASE NO  
2007-00354

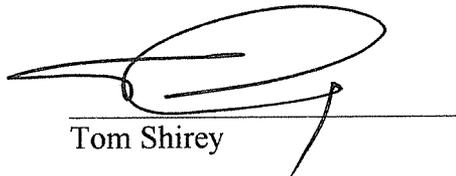
FIRST DATA REQUEST OF COMMISSION STAFF TO  
APACHE GAS TRANSMISSION COMPANY, INC

**CASE #2007-00354**

**CERTIFICATION**

I, Tom Shirey, certify that the responses contained in the *First Data Request of Commission Staff to Apache Gas Transmission Company, Inc. Case No. 2007-00354* are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

I further certify that any copies contained herein are true and exact copies of the originals.



Tom Shirey

**CASE #2007-00354**

**CERTIFICATION**

I, Brenda Everette, certify that the responses contained in the *First Data Request of Commission Staff to Apache Gas Transmission Company, Inc. Case No. 2007-00354* are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

I further certify that any copies contained herein are true and exact copies of the originals.

A handwritten signature in cursive script, appearing to read "Brenda Everette", is written over a horizontal line.

Brenda Everette



**CASE #2007-00354**

1. *Provide Apache's latest state and federal income tax returns with the taxpayer identification numbers redacted.*

Copies of Apache's 2006 federal and state income tax returns are attached.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

**U.S. Corporation Income Tax Return**  
 For calendar year 2006 or tax year

OMB No. 1545-0123

**2006**

beginning \_\_\_\_\_, ending \_\_\_\_\_

**EXTENSION GRANTED TO 09/15/07**

|  |   |   |  |
|--|---|---|--|
| <b>A Check if:</b><br>1 Consolidated return (attach Form 851) <input type="checkbox"/><br>2 Personal holding co. (attach Sch. PH) <input type="checkbox"/><br>3 Personal service corp. (see instructions) <input type="checkbox"/><br>4 Schedule M-3 required (attach Sch. M-3) <input type="checkbox"/> | Use <b>IRS label.</b> <input type="checkbox"/><br>Otherwise, <b>print or type.</b> <input type="checkbox"/> | <b>Name</b><br>APACHE GAS TRANSMISSION COMPANY INC<br><hr/> <b>Number, street, and room or suite no. If a P.O. box, see instructions.</b><br>5005 LIVE OAK STREET<br><hr/> <b>City or town, state, and ZIP code</b><br>GREENVILLE, TX 75402 | <b>B Employer identification number</b><br><br><hr/> <b>C Date incorporated</b><br>04/15/1997<br><hr/> <b>D Total assets (see instructions)</b><br>\$ 158,359. |
|--|---|---|--|

**E Check if:** (1)  Initial return (2)  Final return (3)  Name change (4)  Address change

|   |   |   |                                      |  |              |           |            |           |
|---|---|---|--------------------------------------|--|--------------|-----------|------------|-----------|
|   | <b>1 a</b> Gross receipts or sales  | 61,556.   | <b>b</b> Less returns and allowances |  | <b>c</b> Bal |           | <b>1c</b>  | 61,556.   |
| Income  | <b>2</b> Cost of goods sold (Schedule A, line 8)                                |   |                                      |  |              |           | <b>2</b>   |           |
|   | <b>3</b> Gross profit. Subtract line 2 from line 1c                             |   |                                      |  |              |           | <b>3</b>   | 61,556.   |
|   | <b>4</b> Dividends (Schedule C, line 19)  |   |                                      |  |              |           | <b>4</b>   |           |
|   | <b>5</b> Interest   |   | SEE STATEMENT 1                      |  |              |           | <b>5</b>   | 6.        |
|   | <b>6</b> Gross rents  |   |                                      |  |              |           | <b>6</b>   |           |
|   | <b>7</b> Gross royalties  |   |                                      |  |              |           | <b>7</b>   |           |
|   | <b>8</b> Capital gain net income (attach Schedule D (Form 1120))                |   |                                      |  |              |           | <b>8</b>   |           |
|   | <b>9</b> Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) |   |                                      |  |              |           | <b>9</b>   |           |
|   | <b>10</b> Other income (attach schedule)  |   |                                      |  |              |           | <b>10</b>  |           |
|   | <b>11 Total income.</b> Add lines 3 through 10                                  |   |                                      |  |              |           | <b>11</b>  | 61,562.   |
|   | Deductions (See instructions for limitations on deductions.)                    | <b>12</b> Compensation of officers (Schedule E, line 4) |                                      |  |              |           |            | <b>12</b> |
| <b>13</b> Salaries and wages (less employment credits)  |   |   |                                      |  |              |           | <b>13</b>  |           |
| <b>14</b> Repairs and maintenance   |   |   |                                      |  |              |           | <b>14</b>  | 15,424.   |
| <b>15</b> Bad debts   |   |   |                                      |  |              |           | <b>15</b>  |           |
| <b>16</b> Rents   |   |   |                                      |  |              |           | <b>16</b>  |           |
| <b>17</b> Taxes and licenses  |   |   | SEE STATEMENT 2                      |  |              |           | <b>17</b>  | 4,403.    |
| <b>18</b> Interest  |   |   |                                      |  |              |           | <b>18</b>  | 6,394.    |
| <b>19</b> Charitable contributions  |   |   |                                      |  |              |           | <b>19</b>  |           |
| <b>20</b> Depreciation from Form 4562 not claimed on Schedule A or elsewhere on return (attach Form 4562)   |   |   |                                      |  |              |           | <b>20</b>  | 8,676.    |
| <b>21</b> Depletion   |   |   |                                      |  |              |           | <b>21</b>  |           |
| <b>22</b> Advertising   |   |   |                                      |  |              |           | <b>22</b>  |           |
| <b>23</b> Pension, profit-sharing, etc., plans  |   |   |                                      |  |              |           | <b>23</b>  |           |
| <b>24</b> Employee benefit programs   |   |   |                                      |  |              |           | <b>24</b>  |           |
| <b>25</b> Domestic production activities deduction (attach Form 8903)   |   |   |                                      |  |              |           | <b>25</b>  |           |
| <b>26</b> Other deductions (attach schedule)  |   |   | SEE STATEMENT 3                      |  |              |           | <b>26</b>  | 19,372.   |
| <b>27 Total deductions.</b> Add lines 12 through 26   |   |   |                                      |  |              |           | <b>27</b>  | 54,269.   |
| <b>28</b> Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11                                    |   |   |                                      |  |              |           | <b>28</b>  | 7,293.    |
| <b>29 Less:</b>   | <b>a</b> Net operating loss deduction   |   | <b>29a</b>                           |  |              |           |            |           |
|   | <b>b</b> Special deductions (Schedule C, line 20)                               |   | <b>29b</b>                           |  |              |           | <b>29c</b> |           |
| <b>30 Taxable income.</b> Subtract line 29c from line 28 (see instructions)   |   |   |                                      |  |              | <b>30</b> | 7,293.     |           |
| <b>31 Total tax</b> (Schedule J, line 10)   |   |   |                                      |  |              | <b>31</b> | 1,094.     |           |
| Tax and Payments  | <b>32 a</b> 2005 overpayment credited to 2006                                   | <b>32a</b>  |                                      |  |              |           |            |           |
|   | <b>b</b> 2006 estimated tax payments  | <b>32b</b>  | 3,280.                               |  |              |           |            |           |
|   | <b>c</b> 2006 refund applied for on Form 4466                                   | <b>32c</b>  |                                      |  |              |           |            |           |
|   | <b>d</b> Bal  | <b>32d</b>  | 3,280.                               |  |              |           |            |           |
|   | <b>e</b> Tax deposited with Form 7004   | <b>32e</b>  |                                      |  |              |           |            |           |
|   | <b>f</b> Credits: (1) Form 2439 (2) Form 4136                                   | <b>32f</b>  |                                      |  |              |           |            |           |
|   | <b>g</b> Credit for federal telephone excise tax paid (attach Form 8913)        | <b>32g</b>  |                                      |  |              |           | <b>32h</b> | 3,280.    |
| <b>33</b> Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>   |   |   |                                      |  |              | <b>33</b> |            |           |
| <b>34</b> Amount owed. If line 32h is smaller than the total of lines 31 and 33, enter amount owed  |   |   |                                      |  |              | <b>34</b> | 0.         |           |
| <b>35</b> Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid   |   |   |                                      |  |              | <b>35</b> | 2,186.     |           |
| <b>36</b> Enter amount from line 35 you want: Credited to 2007 estimated tax <input type="checkbox"/> 1,120. Refunded <input type="checkbox"/> 1,066. |   |   |                                      |  |              | <b>36</b> | 1,066.     |           |

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

|   |                          |   |   |
|---|--------------------------|---|---|
| Signature of officer  | Date                     | Title   | May the IRS discuss this return with the preparer shown below?<br><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| Preparer's signature  | 03/24/07                 | Check if self-employed <input type="checkbox"/> | Preparer's SSN or PTIN<br>P00152197   |
| Firm's name (or yours if self-employed), address, and ZIP code          | EIN                      |   |   |
| HOLLAND CPAS, PSC<br>927 COLLEGE STREET<br>BOWLING GREEN, KY 42102-0104 | Phone no. (270) 782-0700 |   |   |



| Schedule J Tax Computation (see instructions) |   |                                 |        |
|---|---|---------------------------------|--------|
| 1   | Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))  | <input type="checkbox"/>        |        |
| 2   | Income tax. Check if a qualified personal service corporation (see instructions)  | STMT <input type="checkbox"/> 4 | 1,094. |
| 3   | Alternative minimum tax (attach Form 4626)  |                                 |        |
| 4   | Add lines 2 and 3   |                                 | 1,094. |
| 5a  | Foreign tax credit (attach Form 1118)   | 5a                              |        |
| b   | Qualified electric vehicle credit (attach Form 8834)  | 5b                              |        |
| c   | General business credit. Check applicable box(es):<br><input type="checkbox"/> Form 3800<br><input type="checkbox"/> Form 6478 <input type="checkbox"/> Form 8835, Section B <input type="checkbox"/> Form 8844   | 5c                              |        |
| d   | Credit for prior year minimum tax (attach Form 8827)  | 5d                              |        |
| e   | Bond credits from: <input type="checkbox"/> Form 8860 <input type="checkbox"/> Form 8912  | 5e                              |        |
| 6   | Total credits. Add lines 5a through 5e  | 6                               |        |
| 7   | Subtract line 6 from line 4   | 7                               | 1,094. |
| 8   | Personal holding company tax (attach Schedule PH (Form 1120))   | 8                               |        |
| 9   | Other taxes. Check if from:<br><input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611 <input type="checkbox"/> Form 8697<br><input type="checkbox"/> Form 8866 <input type="checkbox"/> Form 8902 <input type="checkbox"/> Other (attach schedule) | 9                               |        |
| 10  | Total tax. Add lines 7 through 9. Enter here and on page 1, line 31   | 10                              | 1,094. |

| Schedule K Other Information (see instructions) |  | Yes | No |  | Yes | No |
|---|--|-----|----|--|-----|----|
| 1   | Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual<br>c <input type="checkbox"/> Other (specify) _____   |     |    |  |     |    |
| 2   | See the instructions and enter the:<br>a Business activity code no. <b>221210</b><br>b Business activity <b>GAS TRANSMISSION</b><br>c Product or service <b>NATURAL GAS</b>  |     |    |  |     |    |
| 3   | At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)<br>If "Yes," attach a schedule showing: (a) name and employer identification number (EIN), (b) percentage owned, and (c) taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year.      |     | X  |  |     |    |
| 4   | Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?<br>If "Yes," enter name and EIN of the parent corporation _____  |     | X  |  |     |    |
| 5   | At the end of the tax year, did any individual, partnership, corporation, estate, or trust own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).)<br>If "Yes," attach a schedule showing name and identifying number. (Do not include any information already entered in 4 above.) Enter percentage owned _____   |     |    |  |     |    |
| 6   | During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)<br>If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.<br>If this is a consolidated return, answer here for the parent corporation and on Form 851, Affiliations Schedule, for each subsidiary. |     | X  |  |     |    |
| 7   | At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of stock of the corporation entitled to vote or (b) the total value of all classes of stock of the corporation?<br>If "Yes," enter: (a) Percentage owned _____ and (b) Owner's country _____  |     |    |  |     | X  |
|   | c The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter number of Forms 5472 attached _____   |     |    |  |     |    |
| 8   | Check this box if the corporation issued publicly offered debt instruments with original issue discount <input type="checkbox"/><br>If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.   |     |    |  |     |    |
| 9   | Enter the amount of tax-exempt interest received or accrued during the tax year \$ _____   |     |    |  |     |    |
| 10  | Enter the number of shareholders at the end of the tax year (if 100 or fewer) <b>8</b>   |     |    |  |     |    |
| 11  | If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here <input type="checkbox"/><br>If the corporation is filing a consolidated return, the statement required by Temporary Regulations section 1.1502-21T(b)(3) must be attached or the election will not be valid.   |     |    |  |     |    |
| 12  | Enter the available NOL carryover from prior tax years (Do not reduce it by any deduction on line 29a.) \$ _____   |     |    |  |     |    |
| 13  | Are the corporation's total receipts (line 1a plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000?<br>If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 4. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. \$ <b>0.</b>                           |     |    |  | X   |    |

Note: If the corporation, at any time during the tax year, had assets or operated a business in a foreign country or U.S. possession, it may be required to attach Schedule N (Form 1120), Foreign Operations of U.S. Corporations, to this return. See Schedule N for details.

JWA

| Schedule L Balance Sheets per Books                      | Beginning of tax year |          | End of tax year |          |
|--|-----------------------|----------|-----------------|----------|
|  | (a)                   | (b)      | (c)             | (d)      |
| <b>Assets</b>  |                       |          |                 |          |
| 1 Cash   |                       | 3,821.   |                 | 914.     |
| 2a Trade notes and accounts receivable                   | 64,057.               |          | 36,740.         |          |
| b Less allowance for bad debts                           | ( )                   | 64,057.  | ( )             | 36,740.  |
| 3 Inventories  |                       |          |                 |          |
| 4 U.S. government obligations                            |                       |          |                 |          |
| 5 Tax-exempt securities                                  |                       |          |                 |          |
| 6 Other current assets (att sch.) STMT 5                 |                       |          |                 | 4,422.   |
| 7 Loans to shareholders                                  |                       |          |                 |          |
| 8 Mortgage and real estate loans                         |                       |          |                 |          |
| 9 Other investments (att sch.)                           |                       |          |                 |          |
| 10a Buildings and other depreciable assets               | 180,054.              |          | 193,941.        |          |
| b Less accumulated depreciation                          | ( 68,982.)            | 111,072. | ( 77,658.)      | 116,283. |
| 11a Depletable assets                                    |                       |          |                 |          |
| b Less accumulated depletion                             | ( )                   |          | ( )             |          |
| 12 Land (net of any amortization)                        |                       |          |                 |          |
| 13a Intangible assets (amortizable only)                 | 7,500.                |          | 7,500.          |          |
| b Less accumulated amortization                          | ( 7,500.)             |          | ( 7,500.)       |          |
| 14 Other assets (att. sch.)                              |                       |          |                 |          |
| 15 Total assets  |                       | 178,950. |                 | 158,359. |
| <b>Liabilities and Shareholders' Equity</b>              |                       |          |                 |          |
| 16 Accounts payable                                      |                       | 87,058.  |                 | 81,971.  |
| 17 Mortgages, notes, bonds payable in less than 1 year   |                       |          |                 | 342.     |
| 18 Other current liabilities (att. sch.) STMT 6          |                       |          |                 |          |
| 19 Loans from shareholders                               |                       |          |                 | 45,834.  |
| 20 Mortgages, notes, bonds payable in 1 year or more     |                       | 64,396.  |                 |          |
| 21 Other liabilities (att. sch.)                         |                       |          |                 |          |
| 22 Capital stock: a Preferred stock                      |                       |          |                 |          |
| b Common stock   | 1,200.                | 1,200.   | 1,200.          | 1,200.   |
| 23 Additional paid-in capital                            |                       |          |                 |          |
| 24 Retained earnings - Appropriated (attach schedule)    |                       |          |                 |          |
| 25 Retained earnings - Unappropriated                    |                       | 26,296.  |                 | 29,012.  |
| 26 Adjustments to shareholders' equity (attach schedule) |                       |          |                 |          |
| 27 Less cost of treasury stock                           |                       | ( )      |                 | ( )      |
| 28 Total liabilities and shareholders' equity            |                       | 178,950. |                 | 158,359. |

| Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return                                   |        |
|---|--------|
| Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more - see instructions |        |
| 1 Net income (loss) per books   | 2,716. |
| 2 Federal income tax per books  | 1,094. |
| 3 Excess of capital losses over capital gains   |        |
| 4 Income subject to tax not recorded on books this year (Itemize):  |        |
| 5 Expenses recorded on books this year not deducted on this return (Itemize):                                   |        |
| a Depreciation  | \$     |
| b Charitable contributions  | \$     |
| c Travel and entertainment  | \$     |
| STMT 7  | 3,483. |
| 6 Add lines 1 through 5   | 7,293. |
| 7 Income recorded on books this year not included on this return (Itemize):                                     |        |
| Tax-exempt interest   | \$     |
| 8 Deductions on this return not charged against book income this year (Itemize):                                |        |
| a Depreciation  | \$     |
| b Charitable contributions  | \$     |
| 9 Add lines 7 and 8   |        |
| 10 Income (page 1, line 28) - line 6 less line 9  | 7,293. |

| Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L) |         |
|---|---------|
| 1 Balance at beginning of year  | 26,296. |
| 2 Net income (loss) per books   | 2,716.  |
| 3 Other increases (Itemize):  |         |
| 4 Add lines 1, 2, and 3   | 29,012. |
| 5 Distributions: a Cash   |         |
| b Stock   |         |
| c Property  |         |
| 6 Other decreases (Itemize):  |         |
| 7 Add lines 5 and 6   |         |
| 8 Balance at end of year (line 4 less line 7)   | 29,012. |

**Depreciation and Amortization**  
**(Including Information on Listed Property) OTHER**

▶ See separate instructions. ▶ Attach to your tax return.

**APACHE GAS TRANSMISSION COMPANY INC OTHER DEPRECIATION**

**Part I Election To Expense Certain Property Under Section 179** Note: If you have any listed property, complete Part V before you complete Part I.

|    |   |                              |                  |
|----|---|------------------------------|------------------|
| 1  | Maximum amount. See the instructions for a higher limit for certain businesses  | 1                            | 108,000.         |
| 2  | Total cost of section 179 property placed in service (see instructions)   | 2                            |                  |
| 3  | Threshold cost of section 179 property before reduction in limitation   | 3                            | 430,000.         |
| 4  | Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-  | 4                            |                  |
| 5  | Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions | 5                            |                  |
| 6  | (a) Description of property   | (b) Cost (business use only) | (c) Elected cost |
| 7  | Listed property. Enter the amount from line 29  | 7                            |                  |
| 8  | Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7  | 8                            |                  |
| 9  | Tentative deduction. Enter the smaller of line 5 or line 8  | 9                            |                  |
| 10 | Carryover of disallowed deduction from line 13 of your 2005 Form 4562   | 10                           |                  |
| 11 | Business income limitation. Enter the smaller of business income (not less than zero) or line 5   | 11                           |                  |
| 12 | Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11   | 12                           |                  |
| 13 | Carryover of disallowed deduction to 2007. Add lines 9 and 10, less line 12   | 13                           |                  |

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)**

|    |   |    |  |
|----|---|----|--|
| 14 | Special allowance for qualified New York Liberty or Gulf Opportunity Zone property (other than listed property) placed in service during the tax year | 14 |  |
| 15 | Property subject to section 168(f)(1) election  | 15 |  |
| 16 | Other depreciation (including ACRS)   | 16 |  |

**Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**

**Section A**

|    |   |    |                          |
|----|---|----|--------------------------|
| 17 | MACRS deductions for assets placed in service in tax years beginning before 2006  | 17 | 8,524.                   |
| 18 | If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here |    | <input type="checkbox"/> |

**Section B - Assets Placed in Service During 2006 Tax Year Using the General Depreciation System**

| (a) Classification of property | (b) Month and year placed in service | (c) Basis for depreciation (business/investment use only - see instructions) | (d) Recovery period | (e) Convention | (f) Method | (g) Depreciation deduction |
|--------------------------------|--------------------------------------|--|---------------------|----------------|------------|----------------------------|
| 19a 3-year property            |                                      |  |                     |                |            |                            |
| b 5-year property              |                                      |  |                     |                |            |                            |
| c 7-year property              |                                      |  |                     |                |            |                            |
| d 10-year property             |                                      |  |                     |                |            |                            |
| e 15-year property             |                                      |  |                     |                |            |                            |
| f 20-year property             |                                      |  |                     |                |            |                            |
| g 25-year property             |                                      | 13,887.  | 25 yrs.             | MQ             | S/L        | 152.                       |
| h Residential rental property  | /                                    |  | 27.5 yrs.           | MM             | S/L        |                            |
| i Nonresidential real property | /                                    |  | 27.5 yrs.           | MM             | S/L        |                            |
|                                | /                                    |  | 39 yrs.             | MM             | S/L        |                            |
|                                | /                                    |  |                     | MM             | S/L        |                            |

**Section C - Assets Placed in Service During 2006 Tax Year Using the Alternative Depreciation System**

|                |   |  |         |    |     |  |
|----------------|---|--|---------|----|-----|--|
| 20a Class life |   |  |         |    | S/L |  |
| b 12-year      |   |  | 12 yrs. |    | S/L |  |
| c 40-year      | / |  | 40 yrs. | MM | S/L |  |

**Part IV Summary (see instructions)**

|    |  |    |        |
|----|--|----|--------|
| 21 | Listed property. Enter amount from line 28   | 21 |        |
| 22 | Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see Instr. | 22 | 8,676. |
| 23 | For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs  | 23 |        |

**Part V Listed Property** (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)  
**Note:** For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

**Section A - Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)**

24a Do you have evidence to support the business/investment use claimed?  Yes  No 24b If "Yes," is the evidence written?  Yes  No

| (a)<br>Type of property<br>(list vehicles first)   | (b)<br>Date<br>placed in<br>service | (c)<br>Business/<br>investment<br>use percentage | (d)<br>Cost or<br>other basis | (e)<br>Basis for depreciation<br>(business/investment<br>use only) | (f)<br>Recovery<br>period | (g)<br>Method/<br>Convention | (h)<br>Depreciation<br>deduction | (i)<br>Elected<br>section 179<br>cost |
|--|-------------------------------------|--|-------------------------------|--|---------------------------|------------------------------|----------------------------------|---------------------------------------|
| 25 Special allowance for qualified New York Liberty or Gulf Opportunity Zone property placed in service during the tax year and used more than 50% in a qualified business use |                                     |  |                               |  |                           |                              | 25                               |                                       |
| 26 Property used more than 50% in a qualified business use:  |                                     |  |                               |  |                           |                              |                                  |                                       |
|  | :                                   | :  | %                             |  |                           |                              |                                  |                                       |
|  | :                                   | :  | %                             |  |                           |                              |                                  |                                       |
|  | :                                   | :  | %                             |  |                           |                              |                                  |                                       |
| 27 Property used 50% or less in a qualified business use:  |                                     |  |                               |  |                           |                              |                                  |                                       |
|  | :                                   | :  | %                             |  |                           | S/L-                         |                                  |                                       |
|  | :                                   | :  | %                             |  |                           | S/L-                         |                                  |                                       |
|  | :                                   | :  | %                             |  |                           | S/L-                         |                                  |                                       |
| 28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1   |                                     |  |                               |  |                           |                              | 28                               |                                       |
| 29 Add amounts in column (i), line 26. Enter here and on line 7, page 1  |                                     |  |                               |  |                           |                              |                                  | 29                                    |

**Section B - Information on Use of Vehicles**

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

|  | (a)<br>Vehicle |    | (b)<br>Vehicle |    | (c)<br>Vehicle |    | (d)<br>Vehicle |    | (e)<br>Vehicle |    | (f)<br>Vehicle |    |
|--|----------------|----|----------------|----|----------------|----|----------------|----|----------------|----|----------------|----|
|  | Yes            | No |
| 30 Total business/investment miles driven during the year (do not include commuting miles) |                |    |                |    |                |    |                |    |                |    |                |    |
| 31 Total commuting miles driven during the year  |                |    |                |    |                |    |                |    |                |    |                |    |
| 32 Total other personal (noncommuting) miles driven  |                |    |                |    |                |    |                |    |                |    |                |    |
| 33 Total miles driven during the year. Add lines 30 through 32                             |                |    |                |    |                |    |                |    |                |    |                |    |
| 34 Was the vehicle available for personal use during off-duty hours?                       |                |    |                |    |                |    |                |    |                |    |                |    |
| 35 Was the vehicle used primarily by a more than 5% owner or related person?               |                |    |                |    |                |    |                |    |                |    |                |    |
| 36 Is another vehicle available for personal use?  |                |    |                |    |                |    |                |    |                |    |                |    |

**Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees**

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons.

|   | Yes | No |
|---|-----|----|
| 37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?  |     |    |
| 38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners |     |    |
| 39 Do you treat all use of vehicles by employees as personal use?   |     |    |
| 40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?   |     |    |
| 41 Do you meet the requirements concerning qualified automobile demonstration use?  |     |    |

**Note:** If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.

**Part VI Amortization**

| (a)<br>Description of costs   | (b)<br>Date amortization<br>begins | (c)<br>Amortizable<br>amount | (d)<br>Code<br>section | (e)<br>Amortization<br>period or percentage | (f)<br>Amortization<br>for this year |
|---|------------------------------------|------------------------------|------------------------|---|--------------------------------------|
| 42 Amortization of costs that begins during your 2006 tax year:               |                                    |                              |                        |   |                                      |
|   | :                                  | :                            |                        |   |                                      |
| 43 Amortization of costs that began before your 2006 tax year                 |                                    |                              |                        |   | 43                                   |
| 44 Total. Add amounts in column (f). See the instructions for where to report |                                    |                              |                        |   | 44                                   |

APACHE GAS TRANSMISSION COMPANY INC

| FORM 1120                  | INTEREST INCOME | STATEMENT | 1  |
|----------------------------|-----------------|-----------|----|
| DESCRIPTION                | US              | OTHER     |    |
| MONTICELLO BANK            |                 |           | 6. |
| TOTAL TO FORM 1120, LINE 5 |                 |           | 6. |

| FORM 1120                        | TAXES AND LICENSES | STATEMENT | 2      |
|----------------------------------|--------------------|-----------|--------|
| DESCRIPTION                      |                    | AMOUNT    |        |
| PROPERTY                         |                    |           | 3,118. |
| OTHER                            |                    |           | 35.    |
| KENTUCKY TAXES - BASED ON INCOME |                    |           | 1,250. |
| TOTAL TO FORM 1120, LINE 17      |                    |           | 4,403. |

| FORM 1120                   | OTHER DEDUCTIONS | STATEMENT | 3       |
|-----------------------------|------------------|-----------|---------|
| DESCRIPTION                 |                  | AMOUNT    |         |
| OFFICE EXPENSE              |                  |           | 426.    |
| PROFESSIONAL FEES           |                  |           | 8,667.  |
| EASEMENTS                   |                  |           | 7,237.  |
| INSURANCE                   |                  |           | 3,042.  |
| TOTAL TO FORM 1120, LINE 26 |                  |           | 19,372. |

| SCHEDULE L                  | OTHER CURRENT ASSETS  | STATEMENT       | 5 |
|-----------------------------|-----------------------|-----------------|---|
| DESCRIPTION                 | BEGINNING OF TAX YEAR | END OF TAX YEAR |   |
| PREPAID EXPENSES            | 0.                    | 4,422.          |   |
| TOTAL TO SCHEDULE L, LINE 6 | 0.                    | 4,422.          |   |

| SCHEDULE L                   | OTHER CURRENT LIABILITIES | STATEMENT       | 6 |
|------------------------------|---------------------------|-----------------|---|
| DESCRIPTION                  | BEGINNING OF TAX YEAR     | END OF TAX YEAR |   |
| STATE ACCRUED TAXES          |                           | 342.            |   |
| TOTAL TO SCHEDULE L, LINE 18 |                           | 342.            |   |

| SCHEDULE M-1                            | OTHER EXPENSES RECORDED ON BOOKS<br>NOT DEDUCTED IN THIS RETURN | STATEMENT | 7 |
|---|---|-----------|---|
| DESCRIPTION                             |   | AMOUNT    |   |
| PENALTIES                               |   | 213.      |   |
| FEDERAL TAXES NOT ACCRUED IN PRIOR YEAR |   | 3,270.    |   |
| TOTAL TO SCHEDULE M-1, LINE 5           |   | 3,483.    |   |

Form **7004**  
 (Rev. December 2006)  
 Department of the Treasury  
 Internal Revenue Service

**Application for Automatic 6-Month Extension of Time To File  
 Certain Business Income Tax, Information, and Other Returns**

OMB No. 1545-0233

File a separate application for each return.

|   |  |                    |
|---|--|--------------------|
| Type or Print<br><br>File by the due date for the return for which an extension is requested. See instructions. | Name<br><b>APACHE GAS TRANSMISSION COMPANY INC</b>   | Identifying number |
|   | Number, street, and room or suite no. (If P.O. box, see instructions)<br><b>5005 LIVE OAK STREET</b>   |                    |
|   | City, town, state, and ZIP code (If a foreign address, enter city, province or state, and country* (follow the country's practice for entering postal code)).<br><b>GREENVILLE, TX 75402</b> |                    |

Note. See instructions before completing this form.

- 1 Enter the form code for the return that this application is for (see below) ..... 12
- 2 If the foreign corporation does not have an office or place of business in the United States, check here .....
- 3 If the organization is a corporation or partnership that qualifies under Regulations section 1.6081-5, check here .....
- 4 a The application is for calendar year 2006, or tax year beginning \_\_\_\_\_, and ending \_\_\_\_\_
- b Short tax year. If this tax year is less than 12 months, check the reason:  
 Initial return     Final return     Change in accounting period     Consolidated return to be filed
- 5 If the organization is a corporation and is the common parent of a group that intends to file a consolidated return, check here .....   
 If checked, attach a schedule, listing the name, address, and Employer Identification Number (EIN) for each member covered by this application.
- 6 Tentative total tax ..... 

|   |        |
|---|--------|
| 6 | 2,204. |
| 7 | 3,280. |
| 8 | 0.     |
- 7 Total payments and credits (see instructions) ..... 

|   |        |
|---|--------|
| 7 | 3,280. |
|---|--------|
- 8 Balance due. Subtract line 7 from line 6. Generally, you must deposit this amount using the Electronic Federal Tax Payment System (EFTPS), a Federal Tax Deposit (FTD) Coupon, or Electronic Funds Withdrawal (EFW) (see instructions for exceptions) ..... 

|   |    |
|---|----|
| 8 | 0. |
|---|----|

| Application Is For:                              | Form Code | Application Is For:               | Form Code |
|--|-----------|-----------------------------------|-----------|
| Form 706-GS(D)                                   | 01        | Form 1120-H                       | 17        |
| Form 706-GS(T)                                   | 02        | Form 1120-L                       | 18        |
| Form 990-C (2005 fiscal year filers only)        | 03        | Form 1120-ND                      | 19        |
| Form 1041 (estate)                               | 04        | Form 1120-ND (section 4951 taxes) | 20        |
| Form 1041 (trust)                                | 05        | Form 1120-PC                      | 21        |
| Form 1041-N                                      | 06        | Form 1120-POL                     | 22        |
| Form 1041-QFT                                    | 07        | Form 1120-REIT                    | 23        |
| Form 1042  | 08        | Form 1120-RIC                     | 24        |
| Form 1065  | 09        | Form 1120-S                       | 25        |
| Form 1065-B                                      | 10        | Form 1120-SF                      | 26        |
| Form 1066  | 11        | Form 3520-A                       | 27        |
| Form 1120  | 12        | Form 8612                         | 28        |
| Form 1120 (sub J) (2005 fiscal year filers only) | 13        | Form 8613                         | 29        |
| Form 1120-A                                      | 14        | Form 8725                         | 30        |
| Form 1120-C                                      | 14        | Form 8804                         | 31        |
| Form 1120-F                                      | 15        | Form 8831                         | 32        |
| Form 1120-FSC                                    | 16        | Form 8876                         | 33        |

LHA For Paperwork Reduction Act Notice, see instructions.

Form 7004 (Rev. 12-2006)

720  
41A720

Kentucky  
UNBRIDLED SPIRIT



C Kentucky Corporation Account Number

Department of Revenue

Kentucky Corporation Income Tax Return (Pass-Through Corporations Use Applicable Forms)

2006

Taxable period beginning JAN 1 2006, and ending DEC 31 2006

|   |   |                    |                          |   |
|---|---|--------------------|--------------------------|---|
| <b>A</b> If filing consolidated, check the appropriate box. See instructions.<br><br>Consolidated<br><br><input type="checkbox"/> Election Made prior to 2005, attach Form 722.<br><br><input type="checkbox"/> Mandatory Nexus | <b>B</b> Federal Identification Number _____<br>Name of Corporation or Affiliated Group (Place preaddressed label here; otherwise print or type.)<br><b>APACHE GAS TRANSMISSION COMPANY INC</b> |                    |                          | <b>Taxable Year</b> 12 / 06<br><b>Ending</b> Mo. Yr.                                    |
|   | Number and Street<br><b>5005 LIVE OAK STREET</b>  |                    |                          | State and Date of Incorporation<br><b>KY 04/15/1997</b>                                 |
|   | City<br><b>GREENVILLE</b>   | State<br><b>TX</b> | ZIP Code<br><b>75402</b> | Telephone Number _____<br><b>GAS TRANSMISSION</b>                                       |
|   | <b>D</b> Name of Common Parent _____ Kentucky Corporation Account Number _____  |                    |                          | NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov)<br><b>221210</b> |

**E** Check if applicable:  No packet required for 2007  Initial return  Final return (attach explanation)  
 Short-period return (attach explanation)  Change of name  Change of address

| PART I - TAXABLE INCOME COMPUTATION   |       | PART II - TAX COMPARISON   |   |
|---|-------|--|---|
| 1. Federal taxable income (Form 1120, line 28; Form 1120A, line 24)                           | 7,293 | 1. Income tax from Part I (multiply line 24 by rates) (see instructions)                                     | 342   |
| <b>ADDITIONS: * STMT 1</b>  |       | 2. Alternative minimum (AMC)   | 0   |
| 2. Interest income (state and local obligations)  |       | <b>PART III - TAX COMPUTATION</b>  |   |
| 3. State taxes based on net/gross income *  | 1,250 | 1. Tax liability (Part II, greater of line 1, line 2 or \$175 minimum)                                       | 342   |
| 4. Depreciation adjustment  |       | 2. Recycling/composting equipment tax credit recapture   |   |
| 5. Deductions attributable to nontaxable income   |       | 3. Total (add lines 1 and 2) (if \$175 minimum, skip line 4 and enter on line 5)                             | 342   |
| 6. Related party expenses   |       | 4. Total credits   |   |
| 7. Pass-through loss(es) from other corporation(s) subject to Kentucky corporation income tax |       | 5. Net tax liability (line 3 less lines 4) (\$175 minimum)   | 342   |
| 8. Domestic production activities deduction   |       | 6. Estimated tax payments  |   |
| 9. Other (attach schedule)  |       | <input type="checkbox"/> Check if Form 2220-K attached   |   |
| 10. Total (add lines 1 through 9)   | 8,543 | 7. Extension tax payment   |   |
| <b>SUBTRACTIONS:</b>  |       | 8. Prior year's credit   |   |
| 11. Interest income (U.S. obligations)  |       | 9. Tax due (line 5 less lines 6 through 8)   | 342   |
| 12. Dividend income   |       | 10. Tax overpayment (lines 6 through 8 less line 5)  |   |
| 13. Federal work opportunity credit   |       | 11. Credited to 2007   |   |
| 14. Depreciation adjustment   |       | 12. Amount to be refunded (line 10 less line 11)   |   |
| 15. Pass-through income from other corporation(s) subject to Kentucky corporation income tax  |       | Federal Form 1120, pages 1, 2 and 4, or 1120A, pages 1 and 2, and any supporting schedules must be attached. |   |
| 16. Other (attach schedule)   |       | Make check(s) payable to:  | Kentucky State Treasurer                                    |
| 17. Net income (line 10 less lines 11 through 16)   | 8,543 | Mail return with payment to:   | Kentucky Department of Revenue<br>Frankfort, Kentucky 40620 |
| 18. Current net operating loss adjustment (mandatory nexus only)                              |       |  |   |
| 19. Kentucky net income (add lines 17 and 18)   | 8,543 |  |   |
| 20. Taxable net income (attach Schedule A if applicable)                                      | 8,543 |  |   |
| 21. Net operating loss deduction (NOLD)   |       |  |   |
| 22. Taxable net income after NOLD (line 20 less line 21)                                      | 8,543 |  |   |
| 23. Kentucky domestic production activities deduction (KDPAD)                                 |       |  |   |
| 24. Taxable net income after KDPAD  | 8,543 |  |   |

TAX PAYMENT SUMMARY (Round to Nearest Dollar)

TAX (check applicable box)  Income  AMC Gross Receipts  AMC Gross Profits  Minimum \$175

Tax 342

Penalty

Interest

TOTAL (Including Penalty and Interest) 342



IMPORTANT: Questions 4 - 14 must be completed by all corporations. If this is the corporation's initial return or if the corporation did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. Failure to do so may result in a request for a delinquent return.

1. Indicate whether: (a) [ ] new business; (b) [ ] successor to previously existing business which was organized as: (1) [ ] corporation; (2) [ ] partnership; (3) [ ] sole proprietorship; or (4) [ ] other

7. Are related party costs made to related members as defined in KRS 141.205(1)(l) included in this return? [ ] Yes [X] No

8. Is the net distributive income (loss) received from a corporation subject to the tax imposed by KRS 141.040 included in this return? [ ] Yes [X] No

Caution: If the corporation elected to file a consolidated income tax return for tax years beginning prior to January 1, 2005, skip questions 9 and 10 and go to question 11.

9. Did the corporation at any time during the taxable year do business in Kentucky and own 80 percent or more of the voting stock of another corporation doing business in Kentucky? [ ] Yes [X] No

10. Was 80 percent or more of the corporation's voting stock owned by any corporation doing business in Kentucky at any time of the year? [ ] Yes [X] No

4. The corporation's books are in care of: (name and address) TOM SHIREY PO BOX 228 GREENVILLE TX 75403

11. Was this return prepared on: (a) [ ] cash basis, (b) [X] accrual basis, (c) [ ] other

5. Are disregarded entities included in this return? [ ] Yes [X] No

12. Is the corporation a public service corporation subject to taxation under KRS 136.120? [X] Yes [ ] No

13. Did the corporation file a Kentucky tangible personal property tax return for January 1, 2007? [ ] Yes [X] No

6. Is the corporation a partner in a general partnership(s) doing business in Kentucky? [ ] Yes [X] No

14. Is the corporation currently under audit by the Internal Revenue Service? [ ] Yes [X] No

OFFICER INFORMATION (Failure to Provide Requested Information May Result in a Penalty)

Attach a schedule listing the name, home address and Social Security number of the vice president, secretary and treasurer.

Has this officer information attached changed from the last return filed? [ ] Yes [X] No President's Name TOM SHIREY President's Home Address PO BOX 228 GREENVILLE TX 75403

I, the undersigned, declare under the penalties of perjury, that I have examined these returns, including all accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct and complete.

Signature of principal officer or chief accounting officer HOLLAND CPAS, PSC Mills L. White Jr. Date P00152197

May the Department of Revenue discuss this return with the preparer? [X] Yes [ ] No

E-mail Address:

**SCHEDULE AMC**

41A720AMC  
(10-06)



Taxable Year Ending

1 2 / 0 6  
Mo. Yr.

Commonwealth of Kentucky  
DEPARTMENT OF REVENUE

See instructions

Attach to Form 720, Form 720S, Form 725 or Form 765.

**ALTERNATIVE MINIMUM CALCULATION  
KRS 141.040(11) AND (12)  
Regulation 103 KAR 16:220**

|   |                                     |
|---|-------------------------------------|
| Name of Corporation<br><b>APACHE GAS TRANSMISSION COMPANY INC</b> | Kentucky Corporation Account Number |
|---|-------------------------------------|

**Section A - Computation of Gross Receipts and Gross Profits**

|   | Column A<br>Kentucky | Column B<br>Total |
|---|----------------------|-------------------|
| 1. Gross receipts ..... 1   | 61,562.              | 61,562.           |
| 2. Returns and allowances ..... 2   |                      |                   |
| 3. Gross receipts after returns and allowances<br>(line 1 minus line 2) ..... 3 | 61,562.              | 61,562.           |
| 4. Cost of goods sold ..... 4   |                      |                   |
| 5. Gross profits (line 3 minus line 4) ..... 5                                  | 61,562.              | 61,562.           |

**Section B - Computation of Gross Receipts AMC**

|  |    |  |
|--|----|--|
| 1. If gross receipts from all sources (Column B, line 3) are \$3,000,000 or less, <b>STOP</b> and enter -0- on Section D, line 1, and on Part II, line 2, of applicable form (Form 720, Form 720S, Form 725 or Form 765) ..... 1   |    |  |
| 2. If gross receipts from all sources (Column B, line 3) are greater than \$3,000,000 but less than \$6,000,000, enter the following:<br>(Column A, line 3 x 0.00095) - $\left[ \frac{\$2,850 \times (\$6,000,000 - \text{Column A, line 3})}{\$3,000,000} \right]$<br>but in no case shall the result be less than zero ..... 2 | 0. |  |
| 3. If gross receipts from all sources (Column B, line 3) are \$6,000,000 or greater, enter the following: Column A, line 3 x 0.00095 ..... 3   | 0. |  |
| 4. Enter the amount from line 2 or line 3 ..... 4  | 0. |  |

**Section C - Computation of Gross Profits AMC**

|   |    |  |
|---|----|--|
| 1. If gross profits from all sources (Column B, line 5) are \$3,000,000 or less, <b>STOP</b> and enter -0- on Section D, line 1, and on Part II, line 2, of applicable form (Form 720, Form 720S, Form 725 or Form 765) ..... 1   |    |  |
| 2. If gross profits from all sources (Column B, line 5) are greater than \$3,000,000 but less than \$6,000,000, enter the following:<br>(Column A, line 5 x 0.0075) - $\left[ \frac{\$22,500 \times (\$6,000,000 - \text{Column A, line 5})}{\$3,000,000} \right]$<br>but in no case shall the result be less than zero ..... 2 | 0. |  |
| 3. If gross receipts from all sources (Column B, line 5) are \$6,000,000 or greater, enter the following: Column A, line 5 x 0.0075 ..... 3   | 0. |  |
| 4. Enter the amount from line 2 or line 3 ..... 4   | 0. |  |

**Section D - Computation of AMC**

|  |    |  |
|--|----|--|
| 1. Enter the lesser of Section B, line 4 or Section C, line 4 on this line and on Part II, line 2 of the applicable form (Form 720, Form 720S, Form 725 or Form 765) ..... 1 | 0. |  |
|--|----|--|

APACHE GAS TRANSMISSION COMPANY INC

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KY FORM 720 STATE TAXES BASED ON INCOME STATEMENT 1

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| DESCRIPTION                      | AMOUNT |
|----------------------------------|--------|
| KENTUCKY TAXES - BASED ON INCOME | 1,250. |
| TOTAL TO FORM 720, LINE 3        | 1,250. |

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KY SCHEDULE Q OFFICER INFORMATION STATEMENT 2

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NAME AND ADDRESS AND TITLE

---

SOCIAL SECURITY  
NUMBER

---

KATHY S. SHIREY  
PO BOX 228 GREENVILLE TX 75403  
TREASURER

KEN JOYCE  
PO BOX 228 GREENVILLE TX 75403  
SECRETARY



**CASE #2007-00354**

2. *Reference is made to the "Fort Knox line" on pages 3 and 5 of the application. Provide a complete physical description of the Fort Knox line and describe its impact on Apache's operations and expenses.*

The Fort Knox line is a five (5) mile portion of pipeline that was part of a former gathering line, which was referred to as the Fort Knox line in the Commission's Case No. 2000-483.

In the Commission's case #2000-483 the Commission made it the responsibility of Apache to perform required maintenance and upkeep of the Fort Knox line. Although, currently there is no legal distinction between the Fort Knox line and the Apache line, that five mile section between Franklin Branch and the Grider Regulator Station is still referred to as the Fort Knox line for company reference only. The Fort Knox line was originally a three (3) inch plastic line. Due to Burkesville Gas Company's (Apache's primary customer) potential peak load requirements. Apache has continued a program to replace the three (3) inch plastic line with six (6) inch plastic as needed. The "Fort Knox line" description contained in Case No. 2000-483 is included herein by reference. That being said, the Fort Knox section of line is included in the Apache line from the Texas Eastern line to the point of delivery. Of the approximate 26,000 feet of three (3) inch section of line referred to as the Fort Knox line, approximately 6000 feet have been replaced with six (6) inch plastic in the ordinary course of business. The deliverability volume and pressure is reduced for each foot of three (3) inch line in use.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

3. *Refer to the balance sheets for calendar years 2004, 2005, and 2006.*
  - a. *Describe the nature of the liability identified as "A/P CFRI" and explain the reasons for the changes in the account balance over the 3-year period.*

Prior to January 1, 2004 employees and/or officers of Consolidated Financial Resources, Inc (CFRI) were providing the daily accounting and management necessary to Apache Gas Transmission Company, Inc. operations. These amounts represent the charges for those services. Since no payments have been made toward these charges over the past 3 years, interest was accrued in the amount of \$3,155.70 upon the fiscal year ended December 31, 2006.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

3. *Refer to the balance sheets for calendar years 2004, 2005, and 2006.*
  - b. *Describe the nature of the relationship between CFRI and Apache.*

Tom Shirey is an officer of CFRI.

Tom Shirey acts as Trustee for the eight Shirey children, owners of Apache Gas Transmission Company, Inc. and serves as the current President.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

3. *Refer to the balance sheets for calendar years 2004, 2005, and 2006.*
- c. Describe the nature of the liability identified as "A/P Summit" and explain the reasons for the changes in the account balance or over 3-year period.*

The balance of \$800.00 listed on Apache's balance sheet as of 12/31/04 was for accounting services performed by an employee and/or officer of Summit National Holding Corporation (Summit) prior to 5/13/2002. This amount was paid by Apache in 2005 and does not appear on their balance sheet as of the year ended 12/31/05.

The balance of \$7,000.00 was an amount loaned to Apache from Summit during the fiscal year ended 12/31/06 in order to help with payment for repairs and maintenance and relocation of lines due to road and bridge construction by the Kentucky Transportation Cabinet. The expenses for these repairs and maintenance were accrued in capitalized expenses on Apache's balance sheet during the year ended 12/31/05.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

3. *Refer to the balance sheets for calendar years 2004, 2005, and 2006.*
  - d. *Describe the nature of the relationship between Summit and Apache.*

Tom Shirey is an officer of Summit.

Tom Shirey acts as Trustee for the eight Shirey children, owners of Apache Gas Transmission Company, Inc. and serves as the current President.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

3. *Refer to the balance sheets for calendar years 2004, 2005 and 2006.*
  - e. *Describe the nature of the liability identified as "DT & CS Shirey Rev Fam Trst" on the 2004 and 2005 balance sheets.*

This liability represents a loan from the Shirey Family Trust in the amount of \$550,000.00 placed on the balance sheet during the fiscal year ended 12/31/1997. The loan amount was written down during the fiscal year ended 12/31/1999 in the amount of \$475,000.00. The balance of the loan at that date was \$75,000.00.

This final payment on this loan was made on August 1, 2006.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

3. *Refer to the balance sheets for calendar years 2004, 2005 and 2006.*
- f. Identify the components of the liability "Notes Payable – Other" reported for the three year period.*

This was monies loaned to Apache from CFRI during the fiscal years ending 12/31/03 and 12/31/04 as funds were needed in the regular course of business by Apache. Interest was accrued on this liability during the fiscal year ended 12/31/06 in the amount of \$471.00.

The amounts were as follows:

|          |            |
|----------|------------|
| 9/04/03  | \$3,000.00 |
| 9/22/03  | \$3,000.00 |
| 10/15/04 | \$1,800.00 |
| 11/01/04 | \$2,200.00 |
| 12/31/06 | \$ 471.00  |

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

4. *State the distance from Apache's Texas Eastern interconnect to Burkesville Gas Company's ("Burkesville") city gate.*

The distance from Apache's Texas Eastern interconnect to Burkesville Gas Company's city gate is 94,091 feet (17.82 miles).

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

5. Refer to Attachment 2, page 1 of 4, of Apache's application. Provide a breakdown of the \$4,422 in Account 165, Prepayments, as of December 31, 2006. Explain why there were no similar prepayments on the 2004 or 2005 balance sheets.

Prepayments for the fiscal year ended 12/31/06 include the following:

Liability Insurance \$2,236.39

The insurance company requires a down payment in order for Apache to secure insurance coverage. Apache then makes monthly payments over the next ten (10) months. The total insurance premium is divided by twelve (12) months in order to determine the monthly premium amount. Since our policy period begins on October 1<sup>st</sup> of each year, a prepayment of insurance occurs and is applied to prepayments and expensed in the appropriate month and year.

Estimated Federal Income Tax \$3,280.00

This is the amount of Form 1120 corporation estimated income tax paid for the fiscal year ended 12/31/06. A portion of this amount was refunded from the Department of Treasury during the fiscal year ending 12/31/07 and the difference in the amount of \$1,094.00 has been applied to the 2007 Form 1120 corporation estimated income tax paid. See 2006 Income Tax return provided to you under response #1.

There are no similar prepayments on the 2004 and 2005 balance sheets because no amounts were prepaid.

Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette



**CASE #2007-00354**

6. *Refer to Attachment 3, specifically, the Fees for Transmission of Gas, Account 480. Explain how Apache derived the specific amount, \$42,452, of the proposed revenue increase. Identify the methodology, such as rate of return, debt service coverage, etc. that was used to derive the proposed revenue increase.*

Because of the past five (5) year history, we felt is *unadvisable* to assume an increase in the amount of natural gas transported that results in sales. We instead assumed a level sales volume and deducted the anticipated expenses to maintain and manage the system with some excess for unanticipated expenses.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

7. *Refer to Attachment 4, specifically the description of Income Taxes – State and Federal – 409.1. Explain why the 2005 income tax payments were not accrued and expensed in 2005. Provide a breakdown of the \$5,614 in income tax expense reported in 2006 by year and whether federal or state income tax.*

Since Apache's 2005 books had closed before the 2005 tax payment was made, it was not accrued in 2005. Although it was expensed in 2006 on the financials provided, the tax return shows it as an expense recorded on the books and not deducted on the 2006 return. Please see Statement 7 of the 2006 income tax return provided to you under response #1.

Account 409.1 Income Taxes - State and Federal Include the following:

|  |            |
|--|------------|
| 2005 Kentucky Corporation Income Tax Paid    | \$ 908.00  |
| 2005 Federal Corporation Income Tax Paid     | \$3,270.00 |
| 2006 Kentucky Corporation Income Tax Accrued | \$ 342.00  |
| 2006 Federal Corporation Income Tax Accrued  | \$1,094.00 |

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

8. *Refer to Attachment 4, Exhibit A.*

*a. Describe the nature of the U. S. DOT Pipeline Safety User Fee Assessment.*

Section 60301 of Title 49, United State Code, authorizes the assessment and collection of pipeline user fees to fund the pipeline safety activities conducted under 49 U. S. C. 60101 *et seq.* The Research and Special Program Administration (RSPA) assesses each operator of regulated interstate and intrastate natural gas transmission pipelines (as defined in 49 CFR Part 192), and hazardous liquid pipelines carrying petroleum, petroleum products, anhydrous ammonia and carbon dioxide (as defined in 49 CFR Part 195) pay a share of the total Federal pipeline safety program costs in proportion to the number of miles of pipeline each operator has in service at the end of the calendar year.

A portion of the above explanation was taken from an excerpt on the website of the Department of Transportation Office of Pipeline Safety – Pipeline and Hazardous Materials Safety Administration.

Apache has 17.82 miles of transmission pipeline in service.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

**CASE #2007-00354**

8. *Refer to Attachment 4, Exhibit A.*

*b. Explain why it is appropriate to classify this item as property tax expense. State whether this classification is consistent with prior year classifications.*

This item was classified as property tax because the fee assessed was based on the number of miles of pipeline.

Yes, this is consistent with prior year classifications.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

8. *Refer to Attachment 4, Exhibit A.*

*c. How did Apache's assessed valuation for property tax purposes in 2006 compare with the previous year's assessment?*

The property tax assessment for the tax year 2006 was higher than for tax year 2005.

The 2005 property tax assessment for the tax year 2005 was :

|                   |              |
|-------------------|--------------|
| Real Estate       | \$127,500.00 |
| Tangible Property | \$ 22,500.00 |

The 2006 property tax assessment for the tax year 2006 was:

|                   |              |
|-------------------|--------------|
| Real Estate       | \$111,072.00 |
| Tangible Property | \$107,928.00 |

Apache protested the Kentucky Department of Revenue original assessment of \$477,021.00. It was the management's decision to, after the Department reduced its original assessment to what was subsequently accepted by Apache, to accept the proposed amount due to the additional cost of further protest and/or litigation. Apache's management felt the cost of the additional protest and/or litigation would cost more than the additional taxes incurred as a result of the settlement.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

9. *Refer to Attachment 4, Exhibit C, of the application and Attachment 1 of Apache's August 27, 2007 response to cure the deficiencies in its application*
  - a. *Explain why the reclassification of the management fee for 2004 as maintenance of lines was not included in the 10 year average of maintenance expense if the fee represented repairs and maintenance of the transmission line.*

This fee does not directly represent repairs and maintenance. The fee represents the supervision and management in connection with repairs and maintenance. These fees were accrued on Apache's financials, but have never been paid.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

**CASE #2007-00354**

9. *Refer to Attachment 4, Exhibit C, of the application and Attachment 1 of Apache's August 27, 2007 response to cure the deficiencies in its application*
  - d. *Describe in detail the phrase "anticipated maintenance of State Highway 90 and to the Fort Knox Line."*

Anticipated Maintenance of State Highway 90

Apache was notified by QK4 Architecture, Engineering and Construction firm that the Commonwealth of Kentucky Department of Highways plans a proposed road construction project of State Highway 90. The project, scheduled to begin in the spring of 2008, involves the re-routing, widening, straightening and removing State Highway 90 from the flood plain. In a review of the Department of Highways' maps provided to Apache by QK4 and our conversations with Bill Rynerson of QK4, it is our understanding that Apache's line cross Highway 90 in approximately six (6) places. Since this project is still in the planning stages, Apache is unsure to the extent and cost of the repairs and maintenance that will be required. QK4 is expected to send Apache the design plans during the week of October 15<sup>th</sup>. After receiving these plans, it will be necessary for Apache to hire an engineering firm to design the plans for moving Apache's lines.

To the extent the State Highway 90 project does not materialize, the funds can be used in the repair and maintenance of the remaining 19,000 feet of three (3) inch plastic line with six (6) inch plastic.

Anticipated Repairs and Maintenance to the Fort Knox Line

This five mile section of line referred to as the "Fort Knox line" originally consisted of 3" plastic line. Apache has continued a program to replace the 3" plastic line with 6" plastic line. Approximately 6000 ft. of the 3" line included in the five mile section has been replaced with 6" plastic line. The deliverability volume and pressure is reduced for each foot of 3" line in use.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

9. *Refer to Attachment 4, Exhibit C, of the application and Attachment 1 of Apache's August 27, 2007 response to cure the deficiencies in its application*
  - b. *Explain how the factor of 70 percent was determined to be the appropriate level to represent the anticipated increase in maintenance expenses include all supporting data, schedules and calculations used to derive this factor.*

The 70% was not used to determine the amount of increase. The calculation was the amount of dollars we felt necessary to keep the system in working order. That dollar amount needed resulted in a 70% increase.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

9. *Refer to Attachment 4, Exhibit C, of the application and Attachment 1 of Apache's August 27, 2007 response to cure the deficiencies in its application*
  - c. *Explain why capital expenditures that were recorded as utility plant on Apache's balance sheet are included in the calculation of projected maintenance expenses*

For financial reporting purposes, Apache capitalized the expenses because the repairs and maintenance decreased the weighted average age of the system. However, for demonstrating the cost of maintaining the transmission line we included it in repairs and maintenance expense because we were either replacing dated and worn out components with new components or replacing three (3) inch line with six (6) inch line. In both cases, the activity involved simply keeping the system in working order.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

**CASE #2007-00354**

10. *Refer to Attachment 3 an Attachment 4, Exhibit D.*

a. *How much of the increase in legal fees is due to costs incurred in conjunction with preparing this rate application?*

None of the legal fees are in conjunction with preparing this rate application.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

10. *Refer to Attachment 3 an Attachment 4, Exhibit D.*

b. *Prepare a breakdown of legal fees for the period from January 2007 through June 2007. Indicate each payee and describe the services provided.*

| <u>Billing Date</u> | <u>Billing Period</u> | <u>Payee</u>                              | <u>Billing Amount</u> | <u>Description of Services</u> |
|---------------------|-----------------------|---|-----------------------|--------------------------------|
| 4/2/2007            | 3/01/07 - 4/02/07     | Kenneth A. Meredith, II - Attorney at Law | \$129.14              | Attorney Fees <sup>1</sup>     |
| 5/1/2007            | 4/04/07 - 5/01/07     | Kenneth A. Meredith, II - Attorney at Law | \$532.63              | Attorney Fees <sup>2</sup>     |
| 5/30/2007           | 5/11/07 - 5/30/07     | Kenneth A. Meredith, II - Attorney at Law | \$459.39              | Attorney Fees <sup>3</sup>     |
| 6/11/2007           | 5/08/07 - 6/08/07     | Kenneth A. Meredith, II - Attorney at Law | \$405.00              | Attorney Fees <sup>4</sup>     |
| 6/29/2007           | 6/07/07 - 6/29/07     | Kenneth A. Meredith, II - Attorney at Law | \$180.49              | Attorney Fees <sup>5</sup>     |

1. Legal services pertaining to the status of corporate secretary and treasurer, review letter concerning ownership of corporate stock, review corporate minute books, draft letters to Apache, cost of telefaxing.
2. Legal services pertaining to the status of corporate meeting, outline transactions undertaken at shareholder and Board of Director meetings, draft shareholder and Board of Director minutes, cost of telefaxing.
3. Legal Services pertaining to the shareholder minutes, changes to minutes, reviewed faxes from Apache concerning changes to shareholder minutes, drafted revisions, reviewed corporate resolution and execution of settlement release and confidentiality agreement with Revenue Cabinet, reviewed information concerning Monticello Banking Company loan, draft corporate resolution and waiver, cost of telefaxing.
4. Legal services pertaining to the proposed settlement agreement on the 2006 tax assessment, long distance calls to Apache, review return of executed settlement agreement with the Department of Revenue, cost of photocopying.
5. Legal services pertaining to the status of corporate resolution on loan agreement, review new loan documents, cost of telefaxing.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

**CASE #2007-00354**

11. *Refer to Attachment 4, Exhibit E.*

*a. In Item 1, there appears to be a duplication of Brenda Everette's time for the period ending 7/31/07, resulting in the expense being included in both the actual and estimated amounts. Is this correct? If no, explain why. If yes provide the appropriate revisions to Exhibit E and all related attachments, exhibits, etc.*

No, this is not correct. There is a typographical error in the actual billings for the billing date of 7/16/2007. The billing period is listed as 6/01/07 – 7/31/07. However, the correct billing period was 6/01/07 – 6/30/07.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

**CASE #2007-00354**

11. *Refer to Attachment 4, Exhibit E.*

*b. Explain in greater detail how the estimate for Brenda Everette's expense for the time period 7/01/07 – 12/31/07 was determined, as the actual expense for the first half of 2007 does not support the estimate of 17.5 hours per month.*

As of June 1, 2007 Brenda Everette assumed some extra responsibilities, including some managerial support. The time worked in June 2007 with the extra responsibilities was 17.5 hours. It is expected that Brenda Everette will work at least 17.5 hours per month for the balance of the year.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

**CASE #2007-00354**

11. Refer to Attachment 4, Exhibit E.

c. The narrative in Attachment 4, page 1 of 2, attributing the decrease in accounting expense to the reclassification of Brenda Everette's fees to management fees does not appear to be supported by Exhibit E, Item 1. Provide a breakdown of the costs recorded in Account 92301 – Accounting, for 2006 and the first half of 2007 indicating payee and description of services provided.

Brenda's job does include both management and accounting services. Management services include day to day operations and the corresponding managerial accounting duties. Accounting services include the processing of all information pertaining to the financial records. Brenda assists the CPA in the processing of yearly reports and also works closely with the company's attorney in any legal matters that may arise.

| <u>Billing Period</u>                            | <u>Payee</u>       | <u>Billing Amount</u> | <u>Description of Services</u>                 |
|--|--------------------|-----------------------|--|
| <b><u>For the Fiscal Year Ended 12/31/06</u></b> |                    |                       |  |
| 1/01/06 - 2/28/06                                | Brenda K. Everette | \$213.75              | Management and Accounts Services <sup>1</sup>  |
| 3/01/06 - 3/31/06                                | Brenda K. Everette | \$37.50               | Management and Accounts Services <sup>2</sup>  |
| 4/01/06 - 4/30/06                                | Brenda K. Everette | \$30.00               | Management and Accounts Services <sup>3</sup>  |
| 5/01/06 - 5/31/06                                | Brenda K. Everette | \$33.75               | Management and Accounts Services <sup>4</sup>  |
| 6/01/06 - 6/30/06                                | Brenda K. Everette | \$56.75               | Management and Accounts Services <sup>5</sup>  |
| 7/01/07 - 7/31/06                                | Brenda K. Everette | \$63.75               | Management and Accounts Services <sup>6</sup>  |
| 8/01/06 - 8/31/06                                | Brenda K. Everette | \$41.64               | Management and Accounts Services <sup>7</sup>  |
| 1/01/05 - 12/31/05                               | Holland, CPA's     | \$1,650.00            | Accounting Services <sup>8</sup>               |
| 9/01/06 - 9/30/06                                | Brenda K. Everette | \$37.50               | Management and Accounts Services <sup>9</sup>  |
| 11/01/06 - 12/31/06                              | Brenda K. Everette | \$108.75              | Management and Accounts Services <sup>10</sup> |
| <b><u>For the Six Months Ended 6/30/07</u></b>   |                    |                       |  |
| 01/001/06 -                                      |                    |                       |  |
| 1/31/06  | Holland CPA's      | \$1,530.00            | Accounting Services <sup>11</sup>              |

1. Reviewing information for year end prior to sending to CPA, researching CPA's within the state of Kentucky, day to day accounting services, review monthly information with Mr. Shirey.
2. Reviewing easements for Eamma Anderson lawsuit, conversations with attorney, day to day accounting services, review monthly information with Mr. Shirey.
3. Day to day accounting services, reviewing 1st quarter financial information, review insurance information and policy, review monthly information with Mr. Shirey.
4. Day to day accounting services, review monthly information with Mr. Shirey.
5. Work with CPA on information for property tax return, review historical information, day to day accounting services, review monthly information with Mr. Shirey.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

**CASE #2007-00354**

6. Review insurance information, look up information and complete insurance application, day to day accounting services, review monthly information with Mr. Shirey.
7. Letters to Kentucky Department of Revenue, discuss insurance renewals with insurance agent, day to day accounting services, review monthly information with Mr. Shirey/
8. State and Federal income tax returns and property tax returns for the fiscal year ended 12/31/05.
9. Day to day accounting services, telephone calls concerning insurance renewal with new policy period, review income and property tax returns with Mr. Shirey, review monthly information with Mr. Shirey.
10. Review IRS notice, review information with Mr. Shirey, write letter to IRS, renewa assumed name certificate, research the Secretary of State annual report due date and filing requirements, day to day accounting services, review of monthly information with Mr. Shirey.
11. State and Federal income tax returns and property tax returns for the fiscal year ending 12/31/06.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

11. *Refer to Attachment 4, Exhibit E.*

*d. State whether Brenda Everette works for any affiliate of Apache or company that shares common ownership with Apache. If yes, identify the companies and describe the work that she performs for them.*

No, Apache does not have an affiliate. However, Brenda Everette provides accounting services to other companies that Tom Shirey is an acting officer. Each company receives an itemized statement and is paid by the appropriate entity.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

12. *Refer to Attachment 4, Exhibit E, and Exhibit E, Item 3, regarding the Shirey Family Trust:*
- a. *Has this cost been incurred in prior years? If yes, provide the amount and explain how it was classified on the income statement. If no, explain why Apache has only recently incurred this cost.*

In the past, Apache's fiscal policy had been to make an attempt to accrue all management services provided by other companies whether or not Apache was able to pay for those services. After 2004 there was a change in fiscal policy including the policy to not accrue any management and accounting fees that Apache was not able to pay. Even though the Shirey Family Trust provided management services prior to August 2006, Apache was unable to pay the management fees, so management fees were not accrued or expenses after the fiscal year ended December 31, 2004.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

12. *Refer to Attachment 4, Exhibit E, and Exhibit E, Item 3, regarding the Shirey Family Trust:*
- b. *Explain how the monthly amount of \$1,800 was determined as the appropriate level for the management fee. Include in the explanation the number of hours devoted to the tasks shown on Exhibit E.*

The \$1,800.00 seemed more than reasonable and equitable for the services provided for Apache.

In the past, Apache's fiscal policy had been to make an attempt to accrue all management services provided by other companies whether or not Apache was able to pay for those services. After 2004 there was a change in fiscal policy including the policy to net any payables to Burkesville Gas Company, Inc. against Burkesville's accounts receivable. Apache did not continue to accrue management fees that could not be paid to the extent this was possible. The purpose for this policy change was to encourage the company's long term financial stability.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

13. *Refer to Attachment 3 and Attachment 4, Exhibit F.*
- a. The estimated liability insurance expense for 2007 reflects a 133 percent increase over the actual 2006 expense. Provide a detailed explanation for this increase.*

Liability insurance for the year ended December 31, 2006 included insurance premium for a partial year whereas liability insurance for the year ending December 31, 2007 includes liability insurance for the full year.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

13. *Refer to Attachment 3 and Attachment 4, Exhibit F.*

*b. State whether Apache obtained its current liability policy through a competitive bidding process. If bids were not sought, explain why. If bids were sought, provide copies of the responses Apache received.*

Apache has an insurance agent who request insurance liability quotes from different companies. The agent in turn secures the lowest available premium for Apache.

A copy of a memo from Apache's insurance agent concerning the above is attached.

On September 28, 2007, Apache received its current insurance premium rate for the policy year beginning October 15, 2007. The premium for the policy period beginning October 15, 2007 was quoted lower than the previous premium year by approximately 9.289%. This update has been made to Attachment 3 of the original filing and a corrected version is included in this response.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**

# Memo

**To:** Brenda Everette  
**From:** Steve Parrish  
**Date:** 10/09/07  
**Re:** Apache Gas Transmission

**UNDERWOOD, PARRISH &  
ASSOCIATES INSURANCE  
AGENCY**

9319 Taylorsville Road  
Jeffersontown, KY 40299  
**Phone:** 502-267-6949  
**Fax:** 502-267-0850  
**Email:** [steve@underwoodparrish.com](mailto:steve@underwoodparrish.com)

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Our goal is providing Apache Gas with adequate and proper insurance coverage at the most competitive price. Due to the catastrophic liability exposure inherent from operating a gas utility company many companies will not provide coverage at any price.

These are the companies we requested Apache Gas quotes from:

- o Auto Owners Insurance
- o Century Surety Insurance
- o Companion Property & Casualty Insurance
- o Old Republic Insurance
- o Safeco Insurance
- o Secura Insurance
- o Seibels Bruce Insurance
- o Ranger Insurance
- o Zurich Insurance

Century Surety was the only company willing to quote this exposure.

Thank you.

Steve Parrish



**CASE #2007-00354**

13. *Refer to Attachment 3 and Attachment 4, Exhibit F.*

*c. Explain why no liability insurance expense is reflected on the income statements for 2004 and 2005.*

After fiscal year ended December 31, 2005 we determined it was in Apache's best interest to have two (2) separate insurance policies.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

14. *Refer to the billing analysis schedules for calendar years 2004, 2005, and 2006, which show a decrease in Mcf volumes of roughly 20 percent in 2006 compared to the two previous years.*
- a. *State the reasons (e.g., milder temperatures, fewer customers) for the reduced volumes delivered to Burkesville in 2006, compared to 2004 and 2005.*

The reason for the reduced volumes delivered to Burkesville in 2006, compared to 2004 and 2005 was partially due to a milder winter. Also, we believe the increased cost of energy has caused the residential customers to be more conservative in their use. The average number of customers served in 2006 by Burkesville was 336. The average number of customers served in 2005 by Burkesville was 338.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

14. *Refer to the billing analysis schedules for calendar years 2004, 2005, and 2006, which show a decrease in Mcf volumes of roughly 20 percent in 2006 compared to the two previous years.*
  - b. *State whether Apache uses data from the U.S. Department of Commerce's National Climatic Data Center ("NCLC") to monitor current heating degree days compared to the 330 year normal heating degree days published by the NCLC.*

Apache has not used the National Climatic Data Center for monitoring current heating degree days, but instead have relied on the fact the company's total sales have declined by an average of 10.72% annually since 2003, while the number of customers have remained essentially static. Because of the drastic increase in cost of all heating sources of energy, we believe customers have either economized or resorted to using wood for heating purposes, especially the residential customers.

**Name of witness responsible for responding to this question:  
Tom Shirey and Brenda Everette**



**CASE #2007-00354**

**UPDATE**

On September 28, 2007, Apache received its current insurance premium rate for the policy year beginning October 15, 1997. The premium for the policy period beginning October 15, 2007 was quoted lower than the previous premium year by approximately 9.289%. The original filing anticipated an approximate 10% increase. Attached are the updated Attachment 3 and Attachment 4 – Exhibit F.

**APACHE GAS TRANSMISSION COMPANY, INC.**  
**2006 Actual**  
**vs**  
**2007 Budget**

**ATTACHMENT 3**  
**UPDATE**

|  | Actual       | Budget       | Increase   |
|--|--------------|--------------|------------|
|  | Jan - Dec 06 | Jan - Dec 07 | (Decrease) |
| <b>Ordinary Income/Expense</b>                         |              |              |            |
| <b>Income</b>  |              |              |            |
| <b>INTEREST</b>  | 5.98         | 5.98         | 0.00       |
| <b>TRANSMISSION OF GAS</b>                             |              |              |            |
| <b>480 · FEES</b>                                      | 61,555.98    | 104,008.38   | 42,452.40  |
| <b>Total TRANSMISSION OF GAS</b>                       | 61,555.98    | 104,008.38   | 42,452.40  |
| <b>Total Income</b>                                    | 61,561.96    | 104,014.36   | 42,452.40  |
| <b>Expense</b>   |              |              |            |
| <b>DEPRECIATION &amp; TAXES</b>                        |              |              |            |
| <b>403 · Depreciation Expense</b>                      | 8,676.00     | 8,676.00     | 0.00       |
| <b>408 · TAXES OTHER THAN INCOME</b>                   |              |              |            |
| <b>40801 · State</b>                                   | 0.00         | 0.00         | 0.00       |
| <b>40805 · Property</b>                                | 3,117.45     | 4,471.55     | 1,354.10   |
| <b>Total 408 · TAXES OTHER THAN INCOME</b>             | 3,117.45     | 4,471.55     | 1,354.10   |
| <b>409 · OP &amp; NON-OP INCOME TAXES PAYABL</b>       |              |              |            |
| <b>409.1 · Income Taxes - State &amp; Federal</b>      | 5,614.00     | 1,788.22     | -3,825.78  |
| <b>Total 409 · OP &amp; NON-OP INCOME TAXES PAYABL</b> | 5,614.00     | 1,788.22     | -3,825.78  |
| <b>Total DEPRECIATION &amp; TAXES</b>                  | 17,407.45    | 14,935.77    | (2,471.68) |
| <b>GAS OPERATION &amp; MAINT EXP</b>                   |              |              |            |
| <b>767 · MAINT. OF LINES</b>                           | 15,423.70    | 32,410.44    | 16,986.74  |
| <b>921 · OFFICE SUPPLIES &amp; EXPENSES</b>            |              |              |            |
| <b>92101 · Bank Service Charges</b>                    | 232.13       | 232.13       | 0.00       |
| <b>92103 · Office Supplies</b>                         | 152.63       | 152.63       | 0.00       |
| <b>92104 · Postage and Delivery</b>                    | 41.39        | 41.39        | 0.00       |
| <b>Total 921 · OFFICE SUPPLIES &amp; EXPENSES</b>      | 426.15       | 426.15       | 0.00       |
| <b>923 · OUTSIDE SERVICES EMPLOYED</b>                 |              |              |            |
| <b>92301 · Accounting</b>                              | 2,273.39     | 2,105.00     | (168.39)   |
| <b>92302 · Legal Fees</b>                              | 182.87       | 3,413.29     | 3,230.42   |
| <b>92303 · Management Fee</b>                          | 6,211.15     | 25,964.66    | 19,753.51  |
| <b>Total 923 · OUTSIDE SERVICES EMPLOYED</b>           | 8,667.41     | 31,482.95    | 22,815.54  |
| <b>924 · PROPERTY INSURANCE</b>                        |              |              |            |
| <b>92401 · Liability Insurance</b>                     | 3,041.53     | 6,796.84     | 3,755.31   |
| <b>Total 924 · PROPERTY INSURANCE</b>                  | 3,041.53     | 6,796.84     | 3,755.31   |

**APACHE GAS TRANSMISSION COMPANY, INC.**  
**2006 Actual**  
**vs**  
**2007 Budget**

**ATTACHMENT 3**  
**UPDATE**

|   | <u>Actual</u>       | <u>Budget</u>       | <u>Increase</u>   |
|---|---------------------|---------------------|-------------------|
|   | <u>Jan - Dec 06</u> | <u>Jan - Dec 07</u> | <u>(Decrease)</u> |
| <b>930.2 · MISCELLANEOUS GENERAL EXPENSES</b>       |                     |                     |                   |
| <b>930.26 · Licenses and Permits</b>                | 35.00               | 35.00               | 0.00              |
| <b>Total 930.2 · MISCELLANEOUS GENERAL EXPENSES</b> | <u>35.00</u>        | <u>35.00</u>        | <u>0.00</u>       |
| <b>934 · EASEMENT</b>                               | 7,237.44            | 7,237.44            | 0.00              |
| <b>Total GAS OPERATION &amp; MAINT EXP</b>          | <u>34,831.23</u>    | <u>78,388.82</u>    | <u>43,557.59</u>  |
| <b>904 · Uncollectible Accounts</b>                 | 0.00                | 0.00                | 0.00              |
| <b>Total Expense</b>                                | <u>52,238.68</u>    | <u>93,324.59</u>    | <u>41,085.91</u>  |
| <b>Net Ordinary Income</b>                          | 9,323.28            | 10,689.77           | 1,366.49          |
| <b>Other Income/Expense</b>                         |                     |                     |                   |
| <b>Other Income</b>                                 |                     |                     |                   |
| <b>OTHER INCOME</b>                                 | 0.00                | 0.00                | 0.00              |
| <b>Total Other Income</b>                           | <u>0.00</u>         | <u>0.00</u>         | <u>0.00</u>       |
| <b>Other Expense</b>                                |                     |                     |                   |
| <b>OTHER DEDUCTIONS</b>                             |                     |                     |                   |
| <b>42701 · Finance Charge</b>                       | 200.67              | 200.67              | 0.00              |
| <b>42702 · Loan Interest</b>                        | 6,193.78            | 2,374.14            | -3,819.64         |
| <b>Total OTHER DEDUCTIONS</b>                       | <u>6,394.45</u>     | <u>2,574.81</u>     | <u>-3,819.64</u>  |
| <b>42703 · Penalties</b>                            | 213.00              | 213.00              | 0.00              |
| <b>Total Other Expense</b>                          | <u>6,607.45</u>     | <u>2,787.81</u>     | <u>-3,819.64</u>  |
| <b>Net Other Income</b>                             | <u>-6,607.45</u>    | <u>-2,787.81</u>    | <u>3,819.64</u>   |
| <b>Net Income</b>                                   | <u>2,715.83</u>     | <u>7,901.96</u>     | <u>5,186.13</u>   |

**ATTACHMENT 4  
EXHIBIT F - UPDATE**

**Account 92401 - Liability Insurance - Explanation of Expenses**

Liability Insurance expenses based on the actual premium through the policy expiration date of 10/15/07.  
Policy from 10/16/07 through 12/31/07 includes an anticipated 10% premium increase.

| <b>Premium Period</b>   | <b>Premium Per month</b> | <b>Total Period Permium</b> |
|---|--------------------------|-----------------------------|
| <b>Actual Premium 10/16/06 - 10/15/07 is \$6,931.01</b>   |                          |                             |
| 1/01/07 - 12/31/07  | 577.58                   | 5,487.01                    |
| <b>Policy Premium for Policy beginning 10/15/07<br/>(Yearly premium renewal received 9/28/07 in the amount of \$6,287.20)</b> |                          |                             |
| 10/16/07 - 12/31/07   | 523.93                   | 1,309.83                    |
| <b>Account 92401 - Liability Insurance 2007 Expenses</b>  |                          | <b>6,796.84</b>             |